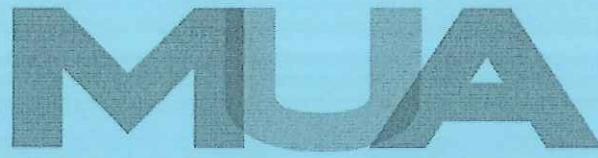


The
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UNDERGRADUATE UNIVERSITY EXAMINATIONS
SCHOOL OF MANAGEMENT AND LEADERSHIP
DEGREE OF BACHELOR OF MANAGEMENT AND LEADERSHIP/
BACHELOR OF COMMERCE

BML 205 / BCM 214: MACRO ECONOMICS

DATE: 5TH APRIL 2018

DURATION: 2 HOURS

MAXIMUM MARKS: 70

INSTRUCTIONS:

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. Write all your answers in the Examination answer booklet provided.

QUESTION ONE**CASE STUDY**

The following is an extract from an opinion piece in the Daily Nation authored by the Chairman of Kenya National Chamber of Commerce. Read it carefully and answer the following questions:

Opinion Thursday October 5, 2017 Daily Nation

LENDING**It's time to rethink interest rate caps**

Despite the great intention behind the Banking Amendment Act 2016, it is yet to achieve its intended objective ne year down the line. The Act, which caps commercial bank lending rates at four per cent above the Central Bank Rate, was meant to boost lending to consumers by making credit more affordable. However, the opposite has happened. Borrowers, and especially small enterprises, can no longer access credit under the rate cap regime.

According to a recent credit survey undertaken by the CBK, 54 percent of the commercial banks admit that interest rate capping has negatively affected lending to the SMEs. The primary reason for this is that rate caps have limited their ability to price for risk, pushing them away from traditionally risky segments such as SMEs to the risk free government paper.

The credit crunch that the SMEs are facing is having dire consequences on the boarder economy. SMEs account for 45 percent of the gross domestic product and employ up to 80 per cent of the work force. If they sneeze, the whole economy catches a cold.

Required:

- i) To what extent would you say the Rate Caps have affected Labour in Kenya's Economy? Explain, giving relevant examples. **(10 marks)**

- ii) Using a diagrammatic model, discuss the value of such caps, as Government control measures, in relation to stable equilibrium price, and how they affect market outcomes. **(10 marks)**
- iii) Outline any other ways Government price controls would be applied. **(5 marks)**

QUESTION TWO

- a) Clearly explain the main components of Gross Domestic Product. **(5marks)**
- b) Distinguish between nominal and real Gross Domestic Product. **(3 marks)**
- c) The selling prices and quantities for goods X and Y in an economy during last three years were.

Year	price of X (In dollars)	Quantity of X	Price of Y (In dollars)	Quantity of Y
2010	1	100	2	50
2011	2	150	3	100
2012	3	200	4	150

Calculate the following for each year

- a) Nominal Gross Domestic Product **(2 marks)**
- b) Real Gross Domestic Product (base year 2010) **(2 marks)**
- c) Using the Gross Domestic Product deflator, determine the inflation rate in the year 2012 **(3 marks)**

QUESTION THREE

- a) Explain two main causes of inflation in an economy **(6 marks)**
- b) Discuss the steps you would follow to calculate the consumer price index (CPI) and the inflation rate. **(5 marks)**
- c) Analyze the quantity theory of money. **(4 marks)**

QUESTION FOUR

- a) Outline the characteristics of the following money market instruments:-
 - i) Treasury Bills (TBS) (4 marks)
 - ii) Negotiable Certificates of Deposit (NCDs) (3 marks)
 - iii) Banker's Acceptances (Bas) (3 marks)
- b) Explain the role of the Capital Markets Authority (CMA) in the Kenyan Financial System. (5 marks)

QUESTION FIVE

- a) Describe the characteristics of money. (5 marks)
- b) Discuss the functions of a Central Bank. (10 marks)

QUESTION SIX

- a) Discuss any two types of unemployment. (4 marks)
- b) Outline the importance of BOP equilibrium as a Standard Policy Objective. (5 marks)
- c) Describe the following forms of Protection in International Trade:
 - i) Tarrifs
 - ii) Quotas
 - iii) Subsidies (3 marks)
- d) Distinguish between absolute and comparative advantage in International trade between counties. (3 marks)